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A turning point for Moldova?

A challenge for the EU and Moldova

by Stefan Meister



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A turning point for Moldova? A challenge for the EU and Moldova

by Stefan Meister

The change of government in Moldova after the parliamentary elections in July 2009 opened a new window of opportunity for fundamental domestic reforms and integration with the European Union.¹ With its clear pro-European policy the new government coalition, the Alliance for European Integration, differs from other post-Soviet leaders (excluding Georgia) that mostly follow a policy of balancing between the EU and Russia. The main challenges for the Moldovan government are the need for fundamental reforms to change the existing political, social and economic reality and the reintegration of the separatist region of Transnistria. Moldova could be a success story for EU neighborhood policy. It is small, it currently has a pro-European elite and it has a non-ethnic resolvable conflict with Transnistria. But in order to succeed in its neighborhood approach, the EU has to seriously engage in the Transnistrian conflict and it must develop a real partnership for reform with Moldova.

Moldova's post-Soviet transformation path

In contrast to other countries in the post-Soviet space, Moldova lacked strong presidential power in the 1990s and became the only parliamentary republic in the Commonwealth of Independent States (CIS). Nevertheless, the pluralism of the political system in Moldova was not based on democratic values, but was the result of weak political institutions. No player was able to change the rules of the game, which led to a balance of power between the different interest groups.

This changed in 2001 when the Party of Communists of the Republic of Moldova (PCRM) won parliamentary elections. With a majority in parliament, their leader Vladimir Voronin was elected president. Voronin established a political system that attempted to consolidate authoritarian rule by controlling business and the media, an absence of the rule of law and an informal system of rule.² This non-transparent and limited competitive political system failed to implement necessary political and economic reforms and polarized society. Despite this, Voronin was not able to consolidate his political rule.

Following increased dissatisfaction among the electorate, the blatant manipulation of the April 2009 parliamentary elections led to mass protests. Voronin had to call for new elections in July because of his inflexibility in reaching a compromise with the opposition. The result was a narrow victory for the coalition of the Liberal Democratic Party of Moldova, the Liberal Party, the Alliance Our Moldova and the Democratic Party of Moldova, the so-called Alliance for European Integration (AEI). But because it lacked a qualified majority, the AEI was not able to elect a president. It had to again call for elections that took place in November 2010 and that confirmed a narrow victory for the coalition and continued the deadlock with the PCRM. The situation in parliament illustrates the split in Moldovan society resulting from a division over three main issues: the model of political power, national identity and the country's geopolitical orientation.³ Citizens have become frustrated about the failure of the political leadership to reform Moldova and to give its people brighter prospects for the future. Moldova's citizens don't trust political parties or state institutions and there is no functioning legal system in the country. An opinion poll conducted by the Institute for Public Policy (Chisinau) in 2009 found out that more than 50 percent of inter-

viewees felt Moldova was moving in the wrong direction. Political parties, the police and the courts turned out to be the least trusted institutions in the country.⁴

Weak private entrepreneurship and the state's huge influence in the economy hinder market reforms, which would lead to more competition and increase of quality of products. An urban-country-divide that leads to a strong influence for the huge rural population, and a disproportionately high percentage of elderly people among the whole population, makes large parts of the Moldovan society open to a paternalistic model of state.⁵ These characteristics stand in contrast to the younger generation and the smaller urban population, which see their future in the EU. Many people in this group leave the country for work and better living standards. However, both groups are united in their disbelief that the political elites strive for a positive transformation of the country.

The main transformation obstacles for Moldova

Without the prospect of fundamental economic transformation, along with its lack of natural resources, Moldova remains one of the poorest countries in Europe. While the CIS as a region recovered to the 1992 GDP level by 2003, Moldova was only able to reach its 1992 output in 2008, and only for a short time. The main driver of Moldova's economic recovery over the last ten years has been remittances from Moldovans, who have gone abroad (mostly Russia and the EU), which make up approximately one-third of Moldova's GDP.⁶ A lack of economic reforms combined with an inefficient and corrupt system of state control over the economy limit the economic recovery. Moldova has been one of the worst performers in Central and Eastern Europe in attracting foreign direct investment and in doing business.⁷ Moldova's very slow and limited economic recovery ended with the financial crisis in 2008.

The main obstacle for the development of Moldova and its further integration in the EU is the conflict over the separatist region of Transnistria.

The conflict has both economic and political implications. Since the end of the Moldovan-Transnistrian war in 1992, Transnistria has been ruled by the leadership of the self-proclaimed "Transnistrian Moldova Republic." It has established parallel institutions and managed to function as a state-like entity independent from Moldova. As a so called "captured state," it is led by a business elite that centralizes power in the hands of "President" Igor Smirnov, the head of the main business group. The Transnistrian conflict does not have ethnic roots like other post-Soviet conflicts and is therefore widely considered to be the "easiest" conflict to solve in the whole region. However, over the last 20 years the Moldovan state has been too weak to formulate and implement a viable reintegration policy. Moldova's weak economic performance failed to attract the population of Transnistria. But there have been signs that supporting the Moldovan government might pay off: In November 2005 the EU launched a Border Assistance Mission (EUBAM) at the border between Ukraine and Moldova. The mission helped to fight smuggling and human trafficking along the Transnistrian border and reduced the revenues of the Transnistrian leadership. This helped to pressure the Transnistrian elites to find compromises to transact trade via Moldovan territory.

Competition between Russia and the EU

With their respective political and economic models, both Russia and the EU have influence on the Moldovan leadership. In the "bargaining" typical of post-Soviet states, President Voronin tried to balance between Russia and the EU to gain the most from both without having to implement fundamental reforms. With regard to the EU-Moldova Action Plan signed in 2005, the PCRM government implemented only those reforms that offered clear financial benefits without weakening its political and economic power. Only two of ten priorities listed in the Action Plan were implemented, namely the creation of conditions for the granting of autonomous trade preferences and a re-admission agreement with the EU.⁸ In successive ENP progress reports, Brussels criticized Moldova for failing to implement chap-

ters related to human rights, freedom of the media, independence of the judiciary, the fight against corruption, as well as an improvement of the business and investment climate.⁹ The EU is partly to blame, since it failed to develop a credible mechanism of conditionality that can react to the political situation in Moldova. A lack of clear demands and sanctions as well as the EU's ignorance regarding the political culture in Moldova are the main reasons for this failure from the EU side. Brussels concentrated on introducing new rules and regulations to a political system that is largely defined by informal rules and a lack of functioning institutions. The EU's ambitious goals (such as fundamental reforms of the socio-economic system) also stands in contrast to the modest funds (approximately 40 million Euros) Brussels has offered so far.

At the same time, Moldova is much more dependent on Russia than the EU. Moldova gets all of its gas from Russia and the Moldovan economy traditionally exports most of its agricultural products to Russia. Russia is also Transnistria's key partner for both financial and political support. It currently has around 1200 "peace" troops stationed there.¹⁰ President Voronin tried to cooperate with Russia to resolve the territorial conflict over Transnistria and to negotiate a withdrawal of Russian troops from the separatist region. But a resolution of the Transnistrian conflict would limit Russia's influence on Moldova. Therefore, Russia wants Moldova to accept the continued stationing of Russian troops and the federalization of Moldova, which would guarantee a significant impact for Transnistria on Chisinau's policy. Moscow pressured Voronin to sign the Kozak Memorandum in November 2003, which aimed at constructing a confederation between Moldova and Transnistria without giving Chisinau the instruments to influence the domestic situation in Transnistria. The memorandum would have secured Russia's military presence in Transnistria for 20 years.¹¹

Aside from the multilateral negotiation format that includes Russia, Ukraine and the OSCE as intermediaries and the EU and the US as observers (the so called 5 plus 2 negotiations), Moscow tried several times to push negotiations in a trilateral framework with President Voronin and the leader of the Transnistrian separatist region. But after resistance

from the Moldovan opposition and pressure from both the EU and the US, Voronin decided not to sign the memorandum. In response, Russia closed its market for Moldovan agricultural products and doubled the price for gas to the country in 2005. In March 2006 the embargo was extended to wine. The value of Moldovan exports to Russia reduced by almost 50 percent, from 347 million dollar in 2005 to 182 million dollar in 2006, which worsened the economic situation of the country even more. Russia is still Moldova's single most important trading partner, but it is closely followed by Romania, a direct neighbor and Moldova's biggest supporter in the EU. All EU member states together receive a larger amount of Moldovan exports than Russia.¹² Moldova is to a large extent dependent on Russia, which makes it more difficult for the EU to influence the country. On the other hand, if the EU and its member states were to make a serious effort, they could be an attractive alternative for Chisinau. Yet this requires both a serious effort by Moldovan elites to implement fundamental reforms (introducing of rule of law, transparent privatization and conditions for a competitive political system) and the will of the EU to offer Moldova economic integration, which also means the risk of coming in conflict with Russia.

New approaches for Moldova and the EU

Under its new pro-European coalition, Moldova increased efforts towards a rapprochement with the European Union. After winning the July 2009 elections, the AEI specified its common goals in their government program such as the restoration of rule of law and the decentralization of power. The AEI started negotiations on an Association Agreement with the EU.¹³ The long-term goal of the new coalition is EU membership for Moldova, which the EU has not yet offered. Aiming for EU membership, the AEI gave up the balancing policy between Moscow and Brussels and concentrated its policy towards EU demands. The EU progress report from 2010 noted that dialogue with civil society has improved and that the transparency of the decision-making processes has increased. Progress was also noted in fighting corruption, reform-

ing the judiciary system and with regard to human rights standards.¹⁴ Moldova decided to turn towards the European Union and in return was rewarded with greater financial support. Apart from a 100 million Euro credit from the EU, Moldova received 580 million dollar from the IMF in 2009 as well as a total sum of 1.9 billion Euros from several partners (such as the European Commission, the World Bank, the IMF and the United States) for its reform program “Re-Think Moldova.”¹⁵

However, implementing reforms within the limited capacities of the bureaucratic apparatus remains a big challenge for the new government. After two years of new rhetoric from the coalition, no fundamental reforms have been implemented. The inability to elect a new president because of the deadlock with the PCRM and diverging interests within the coalition have hindered any real progress. The personal interests of the coalition’s leaders should be subordinated to the interests of the country. On the other hand, the country needs more support from the EU in order to be able to modernize its administration. The EU should therefore put greater emphasis on increasing institutional capacities and help the Moldovan government to understand the ways in which the EU functions.¹⁶ Brussels also has experience in fighting corruption and strengthening the rule of law, and it should offer its expertise in both areas.

Visa-free travel within the EU plays a key role for the Moldovan government in winning over its people for economic and political reforms. The EU should explore this option to create better incentives for the Moldovan government to reform. Visa-free travel could also contribute to the resolution of the Transnistrian conflict because it would make Moldova more attractive to the people of Transnistria. A German initiative set up in Meseberg in June 2010 that aims at making Transnistria a test case for EU-Russia cooperation is a step in the right direction, but has brought no tangible results so far.¹⁷ Russia does not want progress in the Transnistrian conflict, because then it would lose its tool to influence Moldovan policy. From the EU side, there is a need to take Moldova and the Transnistrian conflict more seriously and to develop a real test case for engagement. Such a step implies that the EU and

its members have to be consequent in their negotiations with Russia, even if they risk a confrontation with Moscow. As long as the EU accepts how Russia uses the post-Soviet conflicts to secure the status quo and its own sphere of influence, no breakthrough will be achieved.

Instead of “imitating integration”¹⁸ with its Eastern neighbors, the EU should concentrate on those countries that have a real interest in cooperating with the EU. Moldova is a country in which further engagement is likely to pay off. The EU should further develop its instruments, aiming at producing measurable effects. In the case of Moldova this means starting negotiations for a Deep and Comprehensive Free Trade Area (DCFTA) and rewarding reforms by opening up the European agricultural sector to Moldovan products. Introducing free movement of travel and building privileged institutional relations should also be part of the package. Brussels should finally put greater emphasis on support for civil society by improving access to EU programs like cultural and educational exchanges, voluntary service and assistance with effective civil society organization. On the other hand, Brussels should more clearly sanction countries, if they do not fulfill the announced reforms. While there has been progress in Moldova-EU negotiations, there are delays in implementing major reforms by the current Moldovan government coalition.

As Ukraine’s change of government in the 2010 elections shows, the main challenge for the current Moldovan government is to stabilize its institutions against an authoritarian roll back and to implement fundamental reforms that actually change the rules of the game. To allow for political competition, increasing the media’s independence and strengthening civil society are the main tasks of the government’s reform process. The EU should step up its support of this process as well with effective carrots and sticks. Bringing Moldovan society into this major reform project would mean breaking with the Soviet legacy and allowing Moldova to take a real step in the direction of an open and pluralistic European society.

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Notes

- 1 “Integration” means in this context the partial adoption of the *acquis communautaire* and economic integration (like a free trade agreement), but does not include membership.
- 2 Witold Rodkiewicz, *From virtual to European democracy—the origins and consequences of the political breakthrough in Moldova* (OSW Studies 12), Warsaw 2009, pp. 50–54.
- 3 Rodkiewicz, p. 45.
- 4 Institute for Public Policy, *Barometer of public opinion*, November 2009, p. 6, 73, <http://ipp.md/public/files/Barometru/2009/BOP_noiembrie_2009_English.pdf> [sic] (17/05/2011).
- 5 National Bureau of Statistic of the Republic of Moldova, *Age structure of population, 1980–2010*, <http://www.statistica.md/public/files/Piramida/Moldova_E.html> (17/05/2011).
- 6 Valeriu Prohntichi/Alex Oprunenco, *Moldova Report 2009: State of the country report*, Chisinau 2010, pp. 23–24, 48.
- 7 See World Bank *Doing business in 2009*, <<http://www.doingbusiness.org/reports/doing-business/doing-business-2009>> (17/05/2011).
- 8 Rodkiewicz, p. 75.
- 9 An example is the progress report of 2008: Commission of the European Communities, *Implementation of the European Neighborhood Policy in 2008, Progress Report Moldova*, 23/04/2009, <http://ec.europa.eu/world/enp/pdf/progress2009/sec09_514_en.pdf> (17/05/2011).
- 10 Amanda Akcakoca [u. a.], *After Georgia: conflict resolution in the EU’s Eastern Neighborhood* (EPC Paper No. 57), April 2009, p.13.
- 11 Russian Draft Memorandum on the basic principles of the state structure of a united state in Moldova (Kozak Memorandum), 17 November 2003, <<http://www.stefanwolff.com/files/Kozak-Memorandum.pdf>> (20/04/2011).
- 12 Export Republic of Moldova, 2005–2010, <<http://www.statistica.md/category.php?l=en&idc=336&>> (16/05/2011).
- 13 Government of Moldova, *Activity Program of the Government of the Republic of Moldova “European Integration: Freedom, Democracy, Welfare” 2009–2013*, Chisinau 2009, <<http://www.gov.md/download.php?file=cHVibGljL3B1YmxpY2F0aW9ucy8yNjkyNDQ1X2VuX3Byb2dyYW1fZGVfZ3V2LnBkZg%3D%3D>> (20/04/2011).
- 14 Commission of the European Communities, *Implementation of the European Neighborhood Policy in 2009, Progress Report Moldova*, 12/05/2010, <http://ec.europa.eu/world/enp/pdf/progress2010/sec10_523_en.pdf> (20/04/2011).
- 15 On the basis of the coalition program, the Moldovan government prepared a medium term reform, *Government of Moldova, Rethink Moldova. Priorities for medium term development*, 24/03/2010, <<http://siteresources.worldbank.org/INTMOLDOVA/Resources/Rethink-Moldova-2010-2013-Final-edit-110310.pdf>> (20/04/2011).
- 16 In the latest ENP-National Indicative Programme, EU support in capacity building is one key element of cooperation, European Commission, ENPI, Republic of Moldova, *National Indicative Programme 2011–2013*, <http://ec.europa.eu/world/enp/pdf/country/2011_enp_nip_moldova_en.pdf> (06/05/2011).
- 17 Memorandum, Meeting between Federal Chancellor Angela Merkel and President Dmitri Medvedev, 04/06/2010 in Meseberg, <http://www.bundesregierung.de/nsc_true/Content/DE/_Anlagen/2010/2010-06-07-meseberg-memorandum-deutsch,property=publicationFile.pdf/2010-06-07-meseberg-memorandum-deutsch> (17/05/2011).
- 18 Cf. Katarzyna Pelczynska-Nalecz, *Integration or imitation? EU policy towards its Eastern Neighbors* (OSW Studies 36), Warsaw, April 2011, pp. 56–57, <http://www.osw.waw.pl/sites/default/files/PRACE_36_en.pdf> (17/05/2011).

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